

September 15, 1999

Charles E. Fisher
Executive Director
Illinois Commerce Commission
160 N. LaSalle St., Suite C-800
Chicago, IL 60601-3104

RE: Completion and Submission of Today's ComEd Investigation Report

Dear Mr. Fisher:

Over the past six weeks, it has become clear to many in Chicago that the recent failures in ComEd's distribution system are but symptoms of a serious and underlying service condition. The problems are pervasive, and the time has come to quickly respond with an equally pervasive remedy.

As you know, even before the July and August outages in Chicago, responsible voices had been raised at the ICC, the City, the Attorney General's office, the Legislature, Cook County, CUB, and suburban municipalities concerning the condition of ComEd's transmission and distribution (T&D) system. Then, in response to the summer service interruptions, ComEd launched a new investigation and emergency response directed at the operation and reliability of the T&D system. Subsequently, on August 20, 1999, you wrote to me requesting, among other information, a detailed plan and timetable for system-wide upgrades, a description of actions ComEd is taking to ensure that appropriate emergency response measures are in place, and ComEd's assessment of the state of the T&D system.

The purpose of this letter is to respectfully advise that the investigation has been completed, and that the assessment you requested regarding the state of the T&D system is now available for review by the ICC. Therefore, and in response to last month's request, enclosed are copies of the Investigation Report issued today by ComEd. Included within the Report is a 20-page Executive Summary, entitled "A Blueprint for Change", which provides an overview for the ICC and others. Some of the highlights of that summary are incorporated here for your convenience.

In addition, as a companion piece to the Investigation Report, ComEd is releasing under separate cover today the first Implementation Report under the May 1999 Settlement Agreement with the City of Chicago. The Implementation Report provides, among other

things, details of specific T&D upgrade projects within the City that are currently underway and planned for the immediate future. Copies of the Implementation Report are also enclosed.

The Investigation Report Findings

According to industry professionals, the month-long response effort which began on August 10 is unprecedented in its speed, scope, and intensity. Dr. Karl E. Stahlkopf, Vice President for Power Delivery at the Electric Power Research Institute (EPRI), called ComEd's mobilization of people, money, and material "the fastest, fullest, most comprehensive T&D investigation ever launched in the history of the industry."

You may be familiar with the investigation's progress and some of its findings thanks to your ICC colleagues, Harry Stoller and John Stutsman, who have participated in the two expert panel review sessions that were held in Willowbrook on August 26 and September 10, 1999. As you may have heard, these sessions were not your typical internal review. With brutal candor, and with aggressive specificity, both ComEd's own professionals and a team of nationally recognized experts have been probing, testing and scrutinizing the T&D system, and ComEd has taken an unflinching look at an unflattering reflection.

The enclosed Report is the result of that investigation. The major findings reveal serious issues in the transmission and distribution system, especially in the areas of system maintenance, planning and design, as well as in the management of those systems.

The intensive investigation was primarily designed as a comprehensive examination and diagnosis as to the health of the T&D system. In medical terms, the Report concludes that the T&D system is in serious, but stable condition, and that the overall prognosis is good.

The enclosed Investigation Report responds to specific requests in your August 20 letter. But moving beyond those specific requests, the Report also presents the ICC, other government officials, and ComEd's customers and stakeholders with a comprehensive account of ComEd's investigation and response concerning the service interruptions of July and August in Chicago.

The Report also details the recent improvements achieved through round-the-clock inspection, repair, and replacement activities, and offers a comprehensive blueprint and a definite timetable for the steps necessary to ensure that ComEd's service meets or exceeds industry standards in the performance it delivers to its customers.

A Two-Year Recovery Program

Along with the release of the Report, ComEd will also announce later today a plan calling for a "two-year recovery program", aimed at bringing service reliability up to or beyond

industry norms. As elements in the prioritized action plan, ComEd pledges accelerated and ongoing efforts to address the specific problems identified by the investigation. For example:

Action on Maintenance and Inspection Problems: ComEd has already launched a 24 hour/7 days a week campaign to repair, replace, or upgrade major equipment such as transmission lines, substations, feeder cables, and other components. All told, during the past six weeks ComEd devoted an estimated 250,000 additional staff hours and over \$20 million to the investigation and response. The result is that priority repairs and upgrades will be completed before the start of summer 2000.

Action on T&D System Design Problems: Within 90 days, ComEd will submit to the ICC a comprehensive System Optimization Study that is intended to map out the changes needed to re-tool the system to meet service demands in the next century.

By that same date, December 15, 1999, ComEd will also present to the ICC, the City, and other appropriate officials the first in a series of Quarterly Status Reports on the implementation of the programs outlined in today's Investigation Report.

The dramatic events in Chicago over the last 45 days, and the results of the equally dramatic ComEd response, show that ComEd's management of its distribution business requires truly radical change. The enclosed Report sets definite goals and a definite timetable for these changes. The timeline is pegged to an accelerated schedule in which priority improvements will be completed soon (many of the projects are scheduled for completion within 90 days), and in which all priority work will be complete before the start of next summer.

A Sustained Investment of Resources

As you know, the summer outages occurred in the midst of a continuing focus on, and increased investment in, the ComEd T&D system. Beginning in October 1998, in response to the extraordinary level of storm-related service interruptions experienced that year and a series of inquiries by the ICC and the Attorney General, ComEd accelerated its tree-trimming program and increased its three-year construction budget by \$300 million. ComEd agreed to additional commitments in a May 1999 settlement with the City, bringing the total amount of committed reliability-related improvements in the City to \$1.1 billion. Furthermore, in discussions with the Legislature, ComEd committed to an additional \$2 billion in improvements to the system outside the City.

This unprecedented commitment of capital investment has now been boosted yet again. In response to the summer outages, ComEd has already accelerated and increased the resources devoted to improvements in the T&D system. Looking at the overall construction, operations and maintenance budget, ComEd expects to continue this expedited level of effort, spending \$100 million more than originally budgeted over the remainder of the year, and a total of more than \$1.5 billion over the next two years. By year-end ComEd will present, to the ICC, the City and others, an enforceable plan

detailing what ComEd will spend, where it will be spent, and when the projects will be completed. As part of that plan, ComEd will provide the ICC with supporting documentation demonstrating the benefits of its proposed spending. ComEd intends to be held accountable for any future failures to get the work done on schedule.

In the past, many of these problems have escaped the recognition of responsible managers and independent evaluations alike. In fact, as set forth in the System Reliability section of this Report, the performance of the ComEd system compared favorably with industry norms until stressed by the extremes of weather and load experienced in 1998 and 1999.

Nevertheless, ComEd understands that nine months from now, the onset of another summer will mean that Chicago and ComEd may again be faced with the twin challenges of extreme weather and extreme demand. And today, ComEd is staking its future on its ability to fix the most urgent problems before next summer starts.

The steps we now take toward meeting our service commitments are only our first:

- We must elevate the standards we set for our company in terms of the reliability of our equipment, our electric supply and our delivering service.
- We must revamp our approach to communications – deliver information not just in ways we think are appropriate, but in ways that benefit key stakeholders.
- We must hold ourselves even more accountable and prove that we can keep our own house in order.
- We must radically change the ComEd culture. Our culture – which has traditionally suppressed information so tightly that notification of issues and problems rarely rose to the highest levels of senior management – is both the root of our problems and the key to our recovery.

We appreciate the constructive approach that you, the Chair, and other Commissioners have expressed publicly and look forward to speedy progress. The responsibility for addressing these deficiencies falls squarely on my watch. ComEd knows that it has to act quickly. ComEd understands that, with the release of this Report, the time for explanations is past. ComEd recognizes that, from this day forward, it will be judged by only one measure – performance.

Recent events have created a company-wide call to action and have presented me with a career-defining challenge. I understand – all too clearly – what must be done.

Sincerely,

John W. Rowe
Chairman and CEO

Enclosures: Original plus 5 copies of ComEd Investigation Report
 Original plus 5 copies of ComEd Implementation Report to the City

cc: Hon. Richard M. Daley
 Mayor, City of Chicago

Hon. Jim Ryan
Attorney General of Illinois

Hon. John Stroger
President, Cook County Board of Commissioners

Martin Cohen
Executive Director, Citizens Utility Board